

VZCZCXRO0137
PP RUEHDBU RUEHHM RUEHJO
DE RUEHMO #2512/01 2751331
ZNY CCCCC ZZH
P 021331Z OCT 09
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 4971
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUEHXI/LABOR COLLECTIVE PRIORITY
RUEHXD/MOSCOW POLITICAL COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 002512

SIPDIS

STATE FOR EUR/RUS, DRL
DOL FOR BRUMFIELD

E.O. 12958: DECL: 10/01/2019
TAGS: [ELAB](#) [ECON](#) [EIND](#) [PGOV](#) [SOCI](#) [RS](#)
SUBJECT: KIROV: STRONG LEADERSHIP V. TOO MANY PROBLEMS

REF: MOSCOW592

Classified By: EconMinCouns Matthias J. Mitman, Reasons 1.4 (b,d)

SUMMARY

11. (C) The ailing, industrial economy of Kirov oblast shows little sign that the peak of the crisis has passed. With few exceptions, the region suffers from falling production, low levels of consumption, and inaccessible financing. Local SMEs continue to face heavy administrative burdens and high failure rates. Labor market tension is rising, with more terminations on the way and a diminishing pool of vacancies. However, business representatives and local officials consistently commended Governor Belykh for the openness of his administration to collaboration with the private sector in addressing the region's problems and for the prioritization of labor issues he has inculcated among his staff. Local experts also positively assessed the regional government's employment and business development programs, although they noted that the current number of beneficiaries was insufficient given the scope of the problems. Given the region's woes, business representatives are concerned about the potentially negative impact of Russian WTO accession on the local economy. Despite local officials' hopes to the contrary, the current consumption, financing, and unemployment trends do not indicate an imminent recovery for Kirov's economy. End Summary.

KIROV STILL IN A SLUMP, BUT HOPEFUL

12. (SBU) The economy of Kirov oblast, a largely industrial region approximately 600 miles northeast of Moscow, continues to suffer from declining production, weak demand, and insufficient access to financial resources. This year, production has fallen an average of 16.5 percent in most sectors of the economy, including notable declines in the construction and industrial sectors. Construction projects over the summer season focused on repair as opposed to new building because local residents and businesses lacked the funds to purchase new premises. The volume of orders in the machine construction sector also decreased significantly. Metallurgy and chemical production were also among those sectors of the economy hardest hit. However, food processing, particularly meat and dairy production, as well as daily services remained strong despite the crisis. Officials also hope to develop the region's biotechnology sector as part of an effort to modernize and diversify the economy.

13. (C) As in other regions, local SMEs in Kirov oblast face

steep administrative and financial barriers in addition to the current, low level of consumption. Over 260,000 workers, or 34 percent of the economically active population of the region, work for SMEs, primarily concentrated in the trade, services, wood processing, furniture and food production, textile, and construction sectors. According to Takhir Mamedov, Kirov city OPORA Chairman and General Director of a small business consulting group, 90 percent of new SMEs do not survive the first year. Regardless of initiatives to promote SME development at the federal and regional levels, Mamedov stated that local officials continued to hound entrepreneurs with excessive checks of documents related to technical certifications, fire inspections, and sanitation that often required months to obtain. He also noted that the administration was too inflexible to implement even those regulatory incentives already in place, citing the example of tax holidays, of which entrepreneurs were unable to take advantage because officials failed to process them. In addition, he noted that banks charged 20 percent or more interest on loans because they feared continued decline in the financial sector. According to Mamedov, "you'd have to sell drugs to make enough money to pay such rates." However, new businesses continue to open, and Mamedov expects modest growth in the SME sector this year, although not on par with 2008.

14. (SBU) The decline in the region's overall productivity resulted in an increase in unemployment and labor market tension. Actual unemployment increased from 5.9 percent at the beginning of the crisis to 8.7 percent in August. According to the local labor and employment service, registered unemployment doubled in the first half of 2009.

MOSCOW 00002512 002 OF 003

Officials have already received applications from over 350 enterprises to terminate another 11,000 employees, or six percent of the workforce, this year. Almost 38,000 workers are also underemployed, working less than full-time. In addition, the number of vacancies declined significantly, raising the ratio of applicants to positions to approximately 3:1. Labor demand has fallen sharply in the construction and industrial processing sectors since the onset of the crisis.

15. (C) Despite negative labor market indicators, employment center officials and unions expressed optimism that the labor market situation had stabilized. Leonid Rubtsov of the regional labor and employment service stated that he did not expect another collapse of the economy. Rubtsov also noted that wage arrears in the region had started to fall (from 215 million rubles at the beginning of September) as a result of increased attention from the labor inspector and public prosecutor. Galina Mikheeva, chair of the regional Federation of Independent Unions of Russia (FNPR) agreed that the situation was difficult but emphasized the positive, open relationship between local unions, employers, and the government. Mikheeva noted that unions, for their part, were attempting to convince workers that temporary underemployment was preferable to termination, while the government worked to assist companies with securing financing to pay off wage arrears.

BELYKH SETS POSITIVE TONE ON LABOR AND BUSINESS DEVELOPMENT

16. (C) Business representatives and employment officials praised Governor Nikita Belykh's leadership since he took office at the end of last year. On September 23, Belykh underscored the necessity of open discussions and cooperation between government, business, and civil society to address the region's economic problems during his opening statements at the Moscow School of Political Science's conference on overcoming the crisis. Mamedov of OPORA attested to the sincerity of these statements and confirmed from his experience that Belykh genuinely wanted to incorporate input from businesses and civil society into his administration.

Nikolai Lipatnikov, President of the regional chamber of trade and industry (TPP), also positively assessed relations between local businesses and the regional governor's office and stated that Belykh had been particularly helpful in addressing problems in the construction and financial sectors. Rubtsov of the regional employment service was quick to note that Belykh was the first governor to sign an agreement with the federal government to implement a regional labor market stress reduction program (reftel) and praised the governor for his close monitoring of the labor situation.

Belykh requests weekly updates on the market, meets with institutions implementing labor programs, and requires his staff to request additional funds for employment programming.

According to Rubtsov, this interest has spread throughout Belykh's administration.

¶7. (SBU) The regional administration is currently implementing a complex of employment programs to combat the decline in the labor market brought on by the crisis. In addition to its regional program to reduce labor market stress, Kirov oblast is executing a three-year employment program targeting families with multiple children, invalids, and families in which both parents are unemployed. The administration also plans to apply for federal funds to continue its labor market stress reduction activities in ¶2010. To date, its efforts have saved 10,000 jobs and marginally reduced the registered unemployment rate. Twenty thousand workers have participated in social employment programs, mostly maintaining factory premises and public spaces. Five hundred workers have received professional training. The region is emphasizing computer science skills in order to facilitate the modernization of local factories' production processes. Next year, the administration plans to give priority to workforce development in order to increase the region's competitiveness.

¶8. (SBU) Belykh's administration has also implemented a number of financial measures to facilitate the development of local enterprises. In 2009, the government allocated 143 million rubles in federal funds as well as funds from the regional budget to SME development. It also increased its subsidies of interest for small business loans from 50 to 80 percent and subsidies of interest for leasing from 80 to 100 percent. In addition, businesses now pay tax rates of nine to eleven percent, depending on the size of their workforce,

MOSCOW 00002512 003 OF 003

instead of the former rate of 15 percent. Mamedov of OPORA praised the regional administration's financial assistance programs for SMEs as well as its training opportunities for new entrepreneurs but noted that the quantity of beneficiaries was still too low, recommending that the government further increase the allocation of funds to these programs.

LOCAL BUSINESS REPRESENTATIVES WARY OF WTO ACCESSION

¶9. (C) Given the state of the region's economy, Kirov oblast business representatives expressed doubts regarding a positive economic outcome for the region from Russia's potential accession into the WTO. According to the results of a recent survey conducted by Mamedov's business consulting group, 20 percent of respondents stated that the region's economy was entirely unprepared for Russia's accession, 23 percent responded that local enterprises would not soon be ready, and only six percent asserted that Kirov was ready. Reasons for their hesitation regarding trade liberalization included the region's relatively low level of technological development, a lack of affordable, long-term financial resources, low labor productivity, and an insufficient understanding of the conditions attached to accession. Thirty-one percent feared the proliferation of cheap, foreign-manufactured goods on local markets as a result of accession. Lipatnikov of TPP also acknowledged that the

region faced growing competition from Turkey and China, particularly as the latter increased its production of higher quality goods. However, anecdotal comments from survey participants revealed that business representatives were aware that foreign competitors were already penetrating local markets, and that WTO accession presented a significant opportunity for local producers to access foreign markets in return.

COMMENT

¶10. (C) Despite modest optimism among local officials regarding the stabilization and future growth of the regional economy as well as generous investment from the federal and regional administrations, Kirov oblast faces significant challenges in overcoming the current economic crisis. Already underdeveloped in comparison with neighboring regions coming out of the crisis of the 1990s, Kirov is handicapped by a technologically outdated industrial sector and limited diversification of its economy. High interest rates and low consumption expenditures also hamper the administration's attempts to stimulate the economy; an imminent improvement in the situation is unlikely. These issues carry through to the labor market, where the entry of thousands of university graduates, terminated workers, and labor migrants will likely lead to increased tension until economic growth increases to absorb this labor supply. End Comment.
Beyrle